
Facebook on The Economist's frontpage

By Miklos Sarvary

It is quite remarkable to see Facebook on the front page of The Economist. As usual there is some good data presented on Facebook's crazy growth over the last 5 years. The simple explanation provided for this success is 'network effects', which are well-known for creating market dominance by only one leading firm (the so-called 'winner-take-all' outcome). We have seen this before with Microsoft dominating the OS market or Intel winning on the market of microprocessors.

But as usual, the world is more complex. Facebook was a late-comer to social networks with powerful incumbents already dominant in many national markets. In some of these (e.g. Russia or Vietnam – see map in the article) other social networks still dominate. Moreover, it is also not clear that Facebook's social networking formula was better from the start. MySpace continued to grow fast well after Facebook's appearance and other social networks (e.g. Cyworld in Korea) dominated for a really long time in certain markets. Moreover, in the last few years hundreds of new social networks opened not least Google+ from a firm who has already been beaten by Facebook (while Orkut dominated in Brazil and India for a long time, Facebook recently overtook it in both countries). Moreover, what matters in social media is local network effects as opposed to global network effects: "I don't care about the number of people on Facebook, I just want to interact with my friends." For most people within a national culture there is no need to interact with the world.

Yet, it seems that network effects are global after all. Part of the story is that social media became platforms for much more than just checking in with friends. People use it to upload (store) their photos and videos, they use it to play casual games (e.g. the famous Farmville) and many other things. In fact, since Facebook opened the platform to third party developers, the attractiveness of Facebook also comes from the broad set of applications

available (the same way apps help the iPhone). In fact, an interesting observation in The Economist article is that revenues other than advertising have grown much faster in the last year. Most of these revenues come from third party developers who need to share their revenues with Facebook (30% or so). This definitely changes the game to a traditional network industry. It also means however, that Google+ has a chance if it manages to leverage Google's other rich platforms that hundreds of millions use today. Interesting times ahead!

Find article at

<https://knowledge.insead.edu/marketing/facebook-economists-frontpage>

About the author(s)

Miklos Sarvary Miklos is a Carson Family Professor of Business at Columbia Business School and a former Dean of Executive Education at INSEAD.